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SUBJECT: BASRA SEEKS INVESTMENT

SENSITIVE BUT UNCLASSIFIED - PLEASE PROTECT ACCORDINGLY

Summary

¶1. (SBU) Basra has several business and investment organizations that are encouraging new investment in the province. Basra, like all of Iraq, is suffering from infrastructure constraints, but the situation is improving. The Basra Investment Commission is getting good advice and training from the U.K. and others and enhancing its investment promotion capabilities. International companies are beginning to take a new look at the province, many Basrawis have registered new businesses and some expatriate Iraqis are getting involved again. This cable contains market sensitive information. End summary.

Basra Investment: Starting to Move Forward

¶2. (SBU) Basra has several organizations seeking to increase private investment in the province but, in general, they lack private sector expertise and experience. The Basra Investment Commission, the Basra Chamber of Commerce (an older organization, now getting new members), and the Basra Business Center, which is becoming more active, are some of them. U.K. advisors who have been working with the Basra Investment Commission note that those Basrawis who are most knowledgeable about investment tend to already be doing business successfully abroad, while those left behind are willing amateurs.⁸ Investment Promotion Advisor Trevor Killen states that he is starting with the basics: what is a private sector economy and what is a private sector company? Abdul Al-Hafiz Al-Afi of the Basra Business Center told us that provincial economic activity is 80-85 percent still public-sector based.

Infrastructure Constraints

¶3. (SBU) Basra, like the rest of Iraq is suffering severe infrastructure constraints. Electricity remains unreliable) usually three hours on, four hours off daily, despite the growing private generation & black market⁸ capacity. Internet technology is spotty and very expensive. Roads are adequate but need improvement; the airport has great potential to become a regional hub but needs significant upgrades. The five ports, despite progress made in the deep-water port of Umm Qasr, are still in a process of renovation. There are some rundown hotels, but no adequate place where an international conference can be held. Several contacts suggested that improvements in electricity and information technology would most quickly improve the investment climate the quickest.

¶4. (SBU) Nevertheless, investors from the region -- Turkey, U.A.E., Kuwait -- as well as some European and U.S. companies are beginning to show interest. Construction and infrastructure improvements are underway. A U.K.-based real estate investment company called Deutsche Land (which owns Frankfurt Airport,s main airport center) is interested in developing the Basra airport and is working with the Ministry of Transportation, which owns the land and buildings, on a 50-year lease (market sensitive). The British Consul General at the Basra Provincial Reconstruction Team said that, &It will do Basra a world of good when potential private investors can fly into the airport, catch a taxi and go to a nice hotel. But that will take some time.8

Basra Investment Commission

¶5. (SBU) Contacts noted that the Basra Investment Commission (BIC), which was formally established in October 2008, is Q(BIC), which was formally established in October 2008, is &moving from strength to strength.8 Basra Investment Commission Chairman Dr. Haider Ali Fadhel handed us a glossy brochure in English entitled: &The 2009 Investor Guide to Basra Province,8 which highlights the initial ten year tax holiday and 50-year leases that the National Investment Law (NIL) offers for investors who make their investment through the BIC. It boasts that Basra province has the country,s only outlet to the sea. Tourism and healthcare facilities are entitled to special exemptions. The BIC does not yet have any representation outside Iraq, but has participated in events such as a conference in Istanbul in December 2008 with

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35 Turkish companies participating. Foreign investors are &testing the waters,8 contacts noted.

¶6. (SBU) In accordance with the National Investment Law, the BIC may approve investment licenses in the province for anything up to USD 250 million. Killen is also facilitating some business incubator models and training for investment promotion overseas. U.K. Provincial Reconstruction Team Team Leader Keith MacKiggan said there is no substitute for good mentoring and &train the trainer.8 Haider Ali Fadhel told us that Basrawi incomes are fairly good, but well-off Basrawis currently have to go abroad for things like eye surgery. &To repair a ship, it has to go to ports in Dubai or Iran,8 Haider noted. When these skills and capacities return to Iraq, it will keep money in the province, Haider notes. He said two U.S. companies had approached the BIC thus far, one interested in recycling trash and one interested in agricultural products. Some South Korean companies are also looking into infrastructure investment.

NICs and PICs) Better Public Relations Needed

¶7. (SBU) Khalid Abultiman, an expatriate Basrawi businessman living, until recently, in Dubai and head organizer of an upcoming Trade Exhibition and Conference complained to us about the National and Provincial Investment Commissions (NICs/PICs). &These investment bodies are supposed to have the answers, but they really are uninformed,8 Khalid told us. Better leadership may help, but in his view they do not understand their role in investment promotion and are just bureaucrats collecting a paycheck. There are so many smart Iraqis outside the country who know about investment, but they are just pushed aside when they make inquiries. The Government of Iraq, both central and provincial, needs to take on a better public relations role, by explaining the benefits of foreign investment in improving the economy, creating jobs, and providing services. Letters of Credit, meant to expedite trade, take so long) about three months) and the process is so bureaucratic that most trade-related

transactions are carried out in cash. Basrawis need to play a role too, by showing the benefits of investment, Khalid noted. Credit is also still hard for small companies to get, and that must also improve. The Basra Exhibition is currently scheduled for February 20-24 in Basra International Airport,s reception hall.

Expatriate Iraqis Coming Back?

18. (SBU) Abdul Al-Hafiz Al,Afi of the Basra Business Center said that there are a small number of family-owned and family- dominated companies in Basra. Thousands of new companies have registered since 2003, many are &learning as they go.8 Khalid Abultiman recently moved his family back to Baghdad. Some Basrawi families who have owned property in Basra since the 1920s are starting to look at bringing some money back from abroad. When the conditions are right, local and expat Basrawis will launch new businesses. &A couple of years ago, investors got burned. Kuwaitis and others lost money. But they are coming again to at least have a look, dip a toe in the water.8

Comment: Still Early Days

19. (SBU) It is still early for investment in Basra. The security situation only really began to stabilize only after March 2008 after the Charge of the Knights campaign (Prime QMarch 2008 after the Charge of the Knights campaign (Prime Minister Maliki's successful military operation in March 2008 against Iranian-supported militias in Basra). The improved security is only now beginning to lead to increased banking and business activity. Royal Dutch Shell, as part of its USD three billion flared-gas capture project, is establishing a presence in Basra, which will encourage others to do the same. The signs are evident that investor interest is growing. When expatriate Iraqis, who are well aware of changing conditions in the country, start repatriating money and opening businesses in significant numbers, it will send an even stronger positive signal to foreign investors. End Comment.

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